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Top Secret 217

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NATIONAL INTELLIGENCE DAILY CABLE

Thursday June 2, 1977

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NATIONAL SECURITY INFORMATION

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National Intelligence Daily Cable for Thursday, June 2, 1977.

The NID Cable is for the purpose of informing senior US officials.

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#### MEXICO: Oil Development Financing

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[ ] *//Mexico's state oil company is looking for ways to finance its ambitious investment program. For the first time, Pemex appears willing to commit future oil and gas exports to foreign companies in exchange for development financing.//*

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[ ] Pemex is looking to foreign companies to raise funds because of the constraint put on Mexico's borrowing abroad by the International Monetary Fund stabilization agreement. High on the list of projects for development financing is a 48-inch pipeline to carry up to 2 billion cubic feet per day of gas from the southern oil fields to the US.

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[ ] Pemex's preliminary six-year development program projects capital outlays of \$2.5 billion annually, about double the annual average of the last two years. Current plans would boost production and exports of oil to 2.24 million and 1.1 million barrels per day, respectively, in 1982. *//If Mexico decided to push oil development even faster and if it could obtain sufficient foreign assistance, production could be pushed as high as 3.5 million barrels per day and exports to about 2.2 million barrels per day in 1982.//* [ ]

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#### ETHIOPIA: Railroad Incident

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[ ] *//The destruction of the bridges, located about midway between Addis Ababa and Djibouti in the French Territory*

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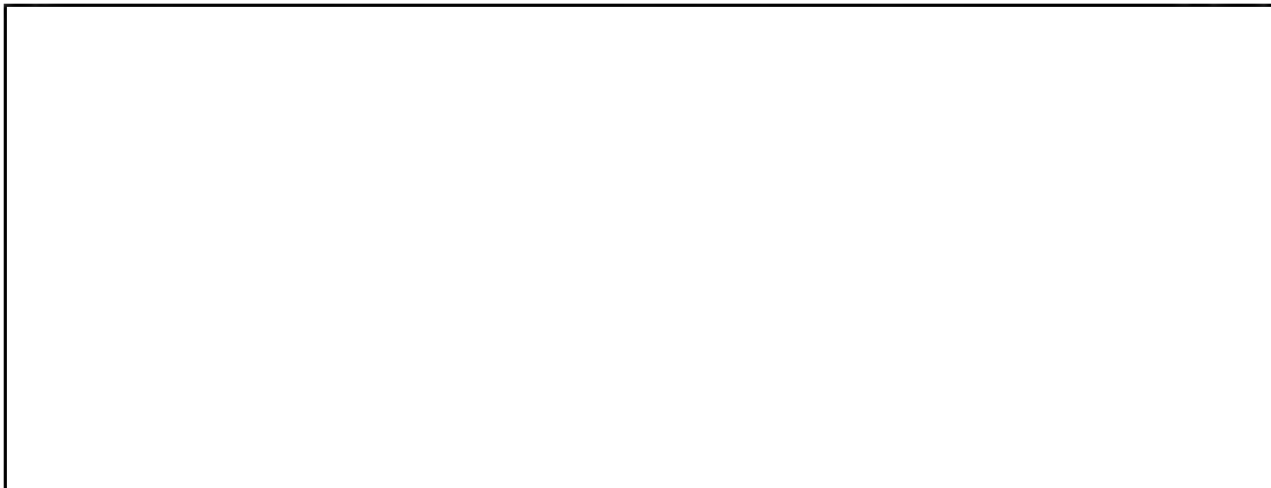
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of Afars and Issas, has reportedly halted all rail traffic. The railroad, Ethiopia's principal outlet to the sea, carried a large portion of the country's foreign trade.//

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#### USSR: Dissident Reportedly Charged


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 Prominent Jewish human rights activist Anatoly Shcharansky, who has been under detention since March 15, has been formally charged with treason, according to information conveyed to Western newsmen yesterday by his friends in Moscow. The charge carries a penalty of 10 to 15 years in a labor camp or, in "extreme circumstances," death.

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 Speculation that Shcharansky would be charged with treason has been rife among Soviet dissidents in recent weeks. Accusations of espionage against him and several US diplomats and newsmen were published in *Izvestia* two weeks before his detention and were repeated in detail in early May.

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 Shcharansky's mother reportedly was notified of the charge in a letter from the Soviet prosecutor's office. Under Soviet law, treason includes espionage and "rendering aid to a foreign state in carrying on hostile activity." No official, public announcement of the treason charge against Shcharansky has yet been made, and in any event, the charge could be reduced before any trial opens.

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[ ] Until his arrest, Shcharansky was one of the most active members of the dissident group monitoring Soviet compliance with the human rights aspects of the Helsinki accords. The founder of the group, Yury Orlov, and his colleague Aleksandr Ginzburg are also being detained, but no charges have been levied against them. Soviet anti-dissident moves in recent months have seemed to focus on Orlov's monitoring group, which has regional branches; four members in the Ukraine and two in the Georgian republic reportedly have also been detained.

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[ ] We still have no hard evidence that the Soviets have resolved the political benefits and drawbacks of putting Shcharansky on trial on the eve of or during the initial CSCE review conference in Belgrade that opens June 15. They may, as some dissidents speculate, calculate that they can hold the arrested activists hostage to developments at Belgrade. Moscow's recent propaganda campaign warning the West not to "overemphasize" human rights or seek to put the USSR and its allies in the dock at Belgrade continues to betray deepseated concern over the course and outcome of the conference.

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[ ] Soviet orchestration of the Shcharansky case so far--publicly implicating the Jewish and non-Jewish dissident community with US diplomats and newsmen in espionage activity at the behest of CIA--could thus be another way Moscow hopes to inhibit the West, and especially the US, from levying charges of human rights violations against the USSR at Belgrade.

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[ ] The Soviets may see several advantages in putting Shcharansky on trial. They would hope that the espionage charges against him will discredit the dissidents, bolster Soviet allegations of US interference in Soviet internal affairs, further curb contacts between foreigners and Soviet citizens, and dramatically demonstrate that Soviet domestic policies are resistant to external pressures. [ ]

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#### USSR: Sluggish Steel Production

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[ ] *The stagnation in Soviet steel production over the last year and a half and the Soviet failure markedly to improve capacity and assortment has rapidly increased Soviet dependence*

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*on imports from the West. The steel industry is unlikely to expand fast enough to reduce this dependence and large hard-currency outlays for steel probably will continue through the remainder of the 1970s and into the 1980s.*

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[ ] The steady growth in Soviet steel production after World War II enabled the USSR to supplant the US as the world's largest steel producer in the early 1970s. The annual rate of steel production has slowed considerably over the last several years. Last year, it increased 3.4 million tons, the smallest annual boost since 1957. Output in the first quarter of 1977 dipped below the level attained in the same period in 1976.

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[ ] The assortment and quality of Soviet finished products, particularly flat-rolled steel, are inadequate to meet domestic demand. Output has lagged in cold-rolled sheet for automobiles and consumer durables, tinplate for the canning and packaging industries, and sheet products for structural applications. Large-diameter pipe for transmission of oil and gas, as well as other tubular goods for the chemical and petroleum industries are also in short supply.

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[ ] Metallurgical flaws and defects in Soviet-made drill and line pipe cause serious problems, especially for operations in the extreme cold of Siberia and the Soviet Far North. These conditions magnify the flaws and the pipe becomes brittle and is apt to shatter. High-quality electrical sheet steel for use in transformers and electric motors also is in short supply. The USSR produces large quantities of electrical sheet steel--more than twice as much as the US--but the quality is very poor.

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[ ] The USSR has been a net importer of steel since 1974. The imports must be paid for in hard currency, while exports are sold, for the most part, under ruble-clearing agreements with Eastern Europe. In 1976, payments for steel imports totaled about \$2.5 billion or about one sixth of total imports paid for in hard currency.

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[ ] The imports from Western suppliers consisted largely of high-cost types of steel but Soviet exports to communist countries and to developing countries consist largely of lower cost grades and types of steel.

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[ ] The Soviets have increased investment outlays for steel steadily in the past 15 years, but the amount has been inadequate for developing a new capacity embodying modern technology, improving the quality and assortment of finished products, and improving the increasingly lean Soviet iron ore.

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[ ] Construction of new steel-making capacity has lagged badly, slowing the expansion of the low-cost basic oxygen steelmaking facilities that are dominant in the rest of the world. The traditional open hearth furnace still accounts for the largest share of Soviet steel output.

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[ ] In an effort to compensate for the lack of new capacity, the Soviets have delayed the retirement of old facilities; facilities have been refurbished, and operations intensified. Most of this potential has already been tapped, and squeezing additional output from existing plants is becoming increasingly difficult.

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[ ] A steady decline in the quality of Soviet iron ore--a decrease in iron content from 45 percent in 1960 to about 35 percent in 1975--has forced the steel industry to allocate a growing share of its investment funds to construction of facilities for raw ore mining, raising the iron content of the ore, and improving the quality of the iron charge for the blast furnace. The USSR, which is the major supplier of iron ore to Eastern Europe, is urging these countries to assist financially in iron ore development projects.

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[ ] All of these factors, together with outlays for pollution control equipment, have caused a steady rise in capital costs not matched by production increases. From 1966 to 1970, net additions to the stock of plant and equipment proceeded at an average annual rate of 8 percent, but production of finished steel increased at only a 6-percent rate. Comparable rates during 1971-1975 were 7.5 percent for plant and equipment and 4.5 percent for finished steel output.

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[ ] Despite an expected slowdown in the overall rate of growth in Soviet gross national product over the next five to ten years, import demand is expected to remain at recent high levels, if not increase somewhat. Large-diameter pipe, oil

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[redacted]

field tubular goods, high-quality tubing for chemical and special applications, and varied types of structural steel account for about 75 percent of the growth in imports of steel since 1970. Domestic needs for these types of steel should remain high.

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[redacted] Prospects are not favorable for expansion of Soviet production of these types of finished steel. Overall growth in output of finished steel will slow to an average annual rate of 3.6 percent in 1976-1980. Moreover, given the poor start in 1976 and early 1977, as well as the Soviet record of failure to carry out investment plans, the structural changes in output required to substitute domestic production for imports will not be attained. [redacted]

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#### UK: Wage Policy Prospects

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[redacted] *//Mounting trade union demands for a return to free collective bargaining in the UK have dimmed hopes for an effective "phase three" wage agreement. The government's best hope for controlling wage increases would now seem to be an "understanding" with the unions that they would not engage in a free-for-all when the current agreement runs out on July 31. Such an understanding would have an ominous similarity to the period in 1974 and 1975 when union negotiators made a shambles out of the Labor government's pay guidelines by extracting increases that helped fuel a 25-percent annual rate of inflation.//*

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[redacted] *//Many union leaders seem willing to help Prime Minister Callaghan save face by agreeing to the continuation of some sort of wage guidelines. Without a highly visible sign of government-union cooperation on an anti-inflation program, one of the main underpinnings of the Labor government, Callaghan would find it difficult to avoid an election this year.//*

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[redacted] *//One key union official recently told US diplomats that he believes the government and the unions will reach an understanding that would gear wage increases to the cost of living; the annual rate of inflation is currently running at 17.7 percent. The official said the understanding would probably include a union pledge not to break the vital 12-month rule, which requires a union to wait one year before negotiating a new wage contract.//*

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[ ] //With the trade union conference season more than half over, unions representing almost 3 million workers have voted in favor of a return to normal collective bargaining after two years of rigid wage controls. Last year, unions representing less than a half million of Britain's 11 million organized workers voted against the "phase two" guidelines.//

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[ ] //The government, however, still has qualified union support for the principle of a third round of wage controls. Steel workers and the General and Municipal Workers Union, the country's third largest union, voted yesterday to support a continued pay policy. Other large, moderate unions, including Jack Jones' transport workers, have yet to vote; the government could pick up more support from them.//

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[ ] //The Labor government recognizes that grass roots sentiment against a tight pay policy is running strong, but for political reasons it will be working hard to secure a new accord with the Trades Union Congress.//

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[ ] //In recent remarks to a gathering of foreign diplomats, Employment Secretary Albert Booth declared that a flexible policy was "better than nothing at all." Booth also said if future union pay demands threatened to set off a new inflationary spiral, the government would use its power over public sector wage bargaining to limit pay increases as well as adopt other restrictive fiscal and budgetary measures to keep the economy on an even keel.//

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[ ] //In the post "phase two" period, whether there are flexible pay guidelines or none at all, skilled workers will probably seek large wage increases to re-establish their position at the top of the working class. Because many skills are in short supply, these workers will be in a strong bargaining position with employers. Unskilled workers--particularly those in the public sector--face more difficult and probably less rewarding negotiating sessions than their more talented comrades.

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CHINA-CANADA: Wheat Purchase

25X1 [ ] //The Canadian Wheat Board announced Tuesday the sale to China of 3 million tons of wheat for delivery between August 1977 and July 1978. This is China's largest single grain purchase of the year and will bring the total purchased in 1977 to more than 8 million tons. The large increase in wheat imports may indicate larger than anticipated winter wheat losses.//

25X1 [ ] //The record for Chinese grain imports is 7.6 million tons in 1973 following a very poor 1972 harvest. Wheat imports in 1976 were a modest 1.9 million tons. Food grain production last year, however, did not increase over 1975 and was considered a poor harvest.//

25X1 [ ] //The dramatic increase in wheat purchases this year thus follows the pattern of 1972 and 1973, and the size of the latest contract suggests that the winter wheat losses were greater than we had estimated. The recent purchase may also be a hedge against the possibility of a poor early rice harvest, which begins in July. [ ]

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